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FM AMEMBASSY CARACAS  
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RUEHAC/AMEMBASSY ASUNCION 0855  
RUEHBO/AMEMBASSY BOGOTA 7440  
RUEHBR/AMEMBASSY BRASILIA 5965  
RUEHBU/AMEMBASSY BUENOS AIRES 1650  
RUEHLP/AMEMBASSY LA PAZ 2560  
RUEHPE/AMEMBASSY LIMA 0831  
RUEHSP/AMEMBASSY PORT OF SPAIN 3456  
RUEHQT/AMEMBASSY QUITO 2651  
RUEHSG/AMEMBASSY SANTIAGO 3977  
RUEHDG/AMEMBASSY SANTO DOMINGO 0486  
RUEHIN/AIT TAIPEI 0032  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
RHEHAAA/WHITEHOUSE WASHDC  
RHEBAAA/DEPT OF ENERGY  
RUCNDT/USMISSION USUN NEW YORK 0896  
RUCPDO/DEPT OF COMMERCE  
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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001481

SIPDIS

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ENERGY FOR CDAY AND ALOCKWOOD  
NSC FOR JCARDENAS AND JSHRIER

E.O. 12958: DECL: 01/12/2017  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)  
SUBJECT: CONOCOPHILLIPS DISCUSSES ITS NEXT MOVES

REF: TAIPEI 1678

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: ConocoPhillips (CP) has presented a proposal to the BRV setting out what it considers to be fair compensation for its expropriated assets. Energy Vice Minister Bernard Mommer stood up CP executives as well as Chinese Petroleum Corporation executives in Houston last week. CP wants an agreement in place with the BRV by August 126. It may proceed to arbitration before that date if the BRV's counterproposal is so far apart that further negotiations are futile. END SUMMARY

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CURRENT STATUS OF NEGOTIATIONS  
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12. (C) Econ Counselor and Petroleum Attache (Petatt) met with CP Latin America President Roy Lyons (strictly protect throughout) on July 26 to discuss CP's negotiations with the BRV on compensation for its expropriated assets. Lyons stated CP presented the BRV with a proposal and is waiting for a response. He stressed that CP's proposal is based on the market value of its assets and is significantly larger than the USD 4.51 billion charge that CP took in the second quarter as a result of pulling out of Venezuela. Lyons stated the USD 4.51 billion charge was an accounting charge that equaled book value plus goodwill.

13. (C) Lyons stated CP did not reduce the reserves listed on its books during the second quarter because it books reserves at the end of each year. According to CP figures, it recorded 1,088 million barrels of oil equivalent proved reserves related to the Petrozuata and Hamaca strategic associations. First quarter 2007 net income attributable to all of CP's Venezuelan operations was USD 27 million.

14. (C) Lyons stated he was scheduled to attend meetings with

Energy Vice Minister Bernard Mommer in Houston this week but Mommer canceled the meetings. Lyons believes Mommer was ready to negotiate but could not get the "green light" to do so from superiors. He based his belief on the fact that Mommer seemed eager to negotiate in a previous telephone conversation. (COMMENT: An ExxonMobil (XM) executive told Petatt on July 25 that XM executives had been scheduled to meet with Mommer in Caracas last week, but the meeting fell through. They were told that the meeting would be rescheduled for the week of July 23 but never heard back from Mommer's office. END COMMENT)

15. (C) Lyons stated CP has told the BRV that it wants to have an agreement in place regarding compensation for its assets by August 26. He added CP may decide to take the BRV to arbitration before that date if the BRV's counterproposal to CP is so far apart that further negotiations are futile.

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OPIC  
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15. (C) When Petatt mentioned media reports that Overseas Petroleum Investment Corporation (OPIC) executives, CP's Taiwanese partner in the Gulf of Paria projects, were scheduled to meet with Mommer in Houston, Lyons stated the reports were true and that Mommer also stood up the Taiwanese. He added that CP officials met with their OPIC counterparts but he was unable to attend the meeting. He added that he had heard from other sources that PDVSA has told companies that it does not want any partners in joint ventures with a less than 10% stake (Reftel). OPIC's stake in both Gulf of Paria projects is below that amount.

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However, Lyons then added that the BRV and PDVSA were quite selective in enforcing the policy.

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PLATAFORMA DELTANA  
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16. (C) Lyons confirmed that CP has not walked away from its investment in block 2 of the Plataforma Deltana offshore gas project. CP has a 40% stake in the project. Chevron, with a 60% stake, is the project's operator. According to Lyons, Chevron believes it has to declare commerciality by November 2007 or lose the project under the terms of the contract. Lyons stated CP has budgeted for the project until the end of the calendar year and will not make any final decision regarding the project until that time.

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CP EMPLOYEES AND OPERATIONS  
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17. (C) Lyons stated CP is closing its two offices in Puerto La Cruz and will transfer remaining operations to the Caracas office. He expects CP to have only three expat employees in country by September. He added CP would delay its final departure by several months in order to wind up outstanding human resources issues. When asked about outstanding tax claims, Lyons replied that CP was close to resolving all of them.

18. (C) Lyons also added that several CP employees were still working on the floating storage and offloading (FSO) unit that was part of the Corocoro project in the Gulf of Paria. He stated PDVSA's captain was not qualified to manage the vessel and CP left its captain and several employees onboard in order to help with operations. When asked if CP still considered the FSO to be its property, Lyons replied that CP views the vessel as having been expropriated by the BRV. Lyons ended the meeting by stating former CP employees in the Gulf of Paria projects received their new pay packages this week from PDVSA. The packages contained pay cuts of between 35 and 70%. He opined that many of the employees would be seeking employment outside of Venezuela in the near future.

